The Contributing Factor of Dividend Imbursement Behavior: An Empirical Study on Textile Sector of Pakistan

Ghulam Abbas[1,] Sonia Hassan[2]

Abstract

The dividend payment behavior of the corporate firms is determined by number of factors which have never been researched in Pakistani textile industry. The main aim of this study is to identify those factors which likely to play an important role in determining the dividend payment behavior of the textile firms in Pakistan. The data of 169 textile firms listed on KSE is collected from the Balance Sheet Analysis (official document issued by SBP) for the year of 2003 to2015. This pooled data based on 1218 firm year observations is analyzed by using Logistic Regression Model and overall model of this study is found to be significant with $X^2(8, N= 1218) = 421.25, p<0.0001$ and this significance of the model is also supported by Hosmer and Lemeshow Test (p-value > 0.05). The results indicate that firm growth and debt to equity ratio have negative relationship with the firms' dividend payment behavior while rests of the factors are positively related to dividend payment behavior of studied firms. Our findings also indicate that size of the firm, earnings, debt to equity ratio; volatility and tangibility are the significant factors of firms' dividend payment behavior. More specifically the size of the firm is found to be the most dominant factor in context of the Pakistan's textile sector. We also found that there are very less number of large firms which regularly pay dividends but most of the firms use their earnings for growth rather than paying it as dividends. In addition, they often use long term loans for financing rather than issuing stocks.

Keywords: Dividend Imbursement Behavior, Critical Factors, Textile Sector, Earnings, Dividend policy.

---

[1] Asst. Professor Dept. of Business Administration, Institute of Southern Punjab, Multan Pakistan, ghulamabbas@isp.edu.pk

[2] Dept. of Business Administration, Institute of Southern Punjab, Multan Pakistan. Soniahassan@isp.edu.pk

1. Introduction

Formulation of optimal dividend policy has always remained an enigma to financial managers and policy analysts for several years. "The indecisiveness of financial theories in the filed of corporate finance on the significance of dividend policy in determining the firm's value has made it one of the most debatable topics for the academia and policy makers. The efforts of academicians and researchers in finance have been less supportive in presenting a conclusive guidance on this subject. As it is not obligatory to payout dividends on the common stocks, the choice of the of dividend has always been left to the corporations' choice; therefore, how much is to be paid as dividend still remains an open issue. For several years, finance scholars have betrothed themselves in the investigation of the factors that might be significant in deciding a firm's dividend policies. In this regard the decision of paying dividends or retaining earnings has been studied rationally in developed countries by both investors and finance managers and it has been the topic of substantial research by the people of finance and economics in the last four decades.

Furthermore, it has been argued that dividend policy has no effect on either the stock prices of the firms or their cost of capital and dividend policy has no significant effect on the stock price of the firm so, it would be *irrelevant*. The principal proponents of the dividend irrelevance theory are Merton Miller and Franco Modigliani (MM, 1961). They argued that the firm's value is determined only by its basic earning power and its business risk and dividend policy has no effect on either the price of a firm's stock or its capital cost. In other words, MM argued that the value of the firm depends only on the income produced by its assets, not on how this income is split between dividends and retained earnings. In developing their dividend theory, MM made a number of assumptions, especially the absence of taxes and brokerage costs. Obviously, taxes and brokerage costs do exist, so the MM theory may not be true in this regard. However, MM argued (correctly) that all economic theories are based on simplifying assumptions, and the validity of a theory must be judged by empirical tests, not by the realism of its assumptions.

The principal conclusion of MM's dividend irrelevance theory is that dividend policy does not affect the required rate of return on equity, k_s. This conclusion has been widely debated by the academicians and corporate people. In particular, Gordon (1963) and Lintner (1962) argued that k_s decreases as the dividend payout is increased because investors are less certain of receiving the capital gain which are supposed to be the

result of retained earnings. MM disagreed with this argument of Lintner (1962) and Gordon (1963) They argued that k_s is independent of dividend policy, which implies that investors are indifferent between dividends and capital gains. MM called the Gordon-Lintner argument the bird in hand fallacy because in MM's view point, most investors plan to invest their dividends in the stock of same or similar firms. In any case the riskiness of the firm's cash flows to investors in the long run is determined by the riskiness of operating cash flows, not by dividend payout policy.

On the other hand, due to the tax advantage investors may prefer to invest in the companies that retain most of their earnings. If so, then the investors would be willing to pay more for low-payout companies than for otherwise similar high-payout companies. Nevertheless, individual investors do have strong preferences, some prefer high dividends while other prefers all capital gains. Both evidence and logic suggest that investors prefer firms that follow a stable, predictable dividend policy (regardless of the payout level). Moreover, MM argued that investors' reactions to changes in dividend policy do not necessarily show that investors prefer dividend to retained earnings. They argued that price changes following dividend actions simply indicate that there is an important information or signaling content in dividend announcement.

The foregoing discussion draws attention to the importance of institutional characteristics to dividend policy and points to the advantages of studying dividend policy in different institutional environments. So far the considerable work has been done on identification of the factors affecting dividend policies of the firms in a variety of backgrounds **(Rao and Sharma, 1983; Kumar, 2006 and Khurana et. al, 2006)**. A number of factors such as after-tax profit, liquidity, amount of retained earnings, size of the firm, growth opportunities, tangibility etc are determined as the key factors in the dividend payout policy of the firms.. Similarly, to many researchers like (Soyode, 1975; Oyejide, 1976; Arivo, 1983) after tax profit is the key factor of firm's dividend policy. While some researchers have highlighted the effect of ownership structure and earnings management on firms' dividend policy (Ayub, 2005; Tallat & Mirza, 2010; Shah, at. el, 2010).

Textile industry of Pakistan is one of the most important sectors of state's economy. Country's GDP, exports as well as employment are heavily dependent on this sector. The statistics show that the textile sector contributes 8.50% of the national income, constitutes 67 % of merchandise exports earnings, employs 38 % of the industrial labor force, generates

half of the production of manufacturing sector and shares 9% in GDP and also has the potential to meet the challenges of the highly competitive global market especially after the removal of trade barriers under WTO regime Pakistan is the 8th largest exporter of textile products in Asia and currently facing tough competition from India, Bangladesh and China. Khan and Khan (2010) reported that this rise in production cost is due to various factors just as rise in electricity tariff, devaluation of Pakistani rupee, energy crisis, increasing cost of inputs, political instability, internal dispute and removal of subsidy. These factors raise the cost of manufacturing which causes the exports to decline and alternatively increase the unemployment level. They further suggested that there is a greater need to equip the manufacturing industry in general and textile industry in particular with advance technology to improve the production processes that will add much value to the final products and make them able to compete in the international market.

This current study has discussed the salient features of the textile sectors in Pakistan and has analyzed the key determinants of dividend payout policy. Ayub (2005) and Tallat and Mirza (2010) focused on ownership structure whereas Ahmed and Javaid (2009) considered the firms' specific characteristics to to analyze the corporate dividend payment policy in Pakistan. Similarly, Shah et al (2010) investigated the impact of earnings management on dividend payout policy for Pakistani and Chinese firms. He found that earnings management has no affect on dividend payout policy for both of the sample countries". None has analyzed the determinants of dividend payout policy relating to the Textile industry of Pakistan up to the author's knowledge. This study will be an attempt to fill this vacuum and will contribute to the understanding of dividend payment behaviors of firms in this important sector.

2. Literature Review

Miller and Modigliani (1961) proved, on the basis of given assumptions, "in their irrelevance proposition, that in a perfect capital market a firm's value is determined only by its basic earning power and its business risk, and dividend policy has no effect either on the price of a firm's stock or its capital cost. Following it, several theoretical and empirical studies have been conducted during the last five decades which have produced enormous amount of text on the behavior of corporate dividend policy (Miller and Modigliani, 1961; Baker and Wurgler, 1963; Soyode, 1975; Oyejide, 1976; Arivo, 1983, Rao and Sharma, 1983;

Kumar, 2006 and Khurana et. al, 2006; Ayub, 2005; Tallat & Mirza, 2010; Shah, at. el, 2010).

However, it is observed that empirical evidence on the determinants of dividend policy is unfortunately very mixed. Generally, three types of opinions are extracted from the existing literature: payment of dividend influences value of the firm positively, on the other hand some investigators believe that firm's value is negatively affected by dividend payment, and it is also believed by a segment that dividend payment does not affect firm's value in either case. Catering theory developed by Baker and Wurgler (1963), that is an addition to the collection of existing dividend theories, states that managers offer incentives to the investors matched to their desire.

According to the catering theory, managers will have a propensity to begin dividends when shareholders put a comparatively high stock price on dividend paying firms, and will tend to skip dividends when shareholders prefer non-paying firms. Similarly, bird in hand theory, which was presented by Gordon and Walter (1963), stated that cash in hand (dividend) is more preferred by shareholders than (capital gains) which are supposed to be the future expected profits. Jensen and Mackling (1976) presented agency theory according to which dividend policy is affected by the percentage of equity controlled by insider ownership and conflicts between managers and shareholders. Myers (1984) postulated Pecking Order Theory which states that a firm follows an order in consumption of funds for investment, initially retained earnings are utilized that are considered to be the less costly source of funds followed by debt and equity as the sources of funds.

Similarly, several investigations on the topic of determinants of dividend payment throughout the world have produced a huge quantity of literature. The studies on this topic have its origin in seminal paper of Lintner (1956) who found that the fundamental determinants of corporate dividend policy are current dividend rates and earnings volatility. Furthermore, Fama and French (2001) took profitability, size and investment opportunities as a basis for the decision to pay dividend and to differentiate the payers and non-payers. Their evidence about the order of investment suggest that firms which are large, profitable with the earnings on outlay are usually dividend payers. In addition to it, they found that smaller firms which having greater investment opportunities and are having larger investment outlays than their earnings, never pay dividends and they appear to be less profitable than the firms which pay dividends.

Allen & Michaely (2002) surveyed dividend payout policy and concluded that changes in the payout policies are not motivated by firms' desire to signal their true worth to the market. A rise in the popularity of repurchases increased overall payout and increased firms' financial flexibility. From the developed economy of U.S. Arnott and Asness (2003) investigated whether dividend policy forecasts future aggregate earnings growth. Their findings, thus contradictory to earlier investigations on the topic, revealed that higher dividend payments lead to higher future earnings growth. Booth & Cleary (2003) found that in emerging market, firms exhibit dividend behavior similar to U.S. firms, in the sense that dividends are explained by profitability, debt, and affected by asset mix, which seemed to be due to their greater reliance on bank debts. Their sample comprised on nine developed and underdeveloped countries naming South Korea, India, Malaysia, Thailand, Zimbabwe, Jordon, Pakistan, Turkey, United States.

Allen (1991) investigated the perception of financial managers regarding determinant of capital structure of listed Australian companies. His findings are consistent with American findings formerly reported by Donaldson's, which states that a pecking order is followed by companies concerning funding resources and maintenance of spare debt capacity. Elston (1996) investigated the importance of dividend policy and liquidity constraints concerning firm's investment behaviour and suggested that liquidity constraints remain a significant determinant of firm's investment behaviour after controlling for the firm's dividend behaviour. Kumar and Lee (2001) found that dividend smoothing is positively related to earnings variance, high possibility of bankruptcy, low liquidity, and expected return on capacity investment by the firm. Hoberg & Parbhala (2007) investigated the puzzle of disappearing dividends through the lens of risk and found that risk is important in clarifying the dividend paying status of firms. Moreover, the risk seemed to be the most important factor compared to any other variable utilized to define dividend paying status. Additionally, they found with little support for the observation that disappearing dividends replicate firms' provided the transient trends for the dividends.

Similarly, Fama and French (2001), Mitton (2004), Li and Lie (2006) and Shah, Yuan and Zafar (2010) have stated that firms which are large in size are observed to pay more dividends than small firms and commonly a significant positive relationship is found between size of the firm and dividend payment behavior. Stacescu (2006) stated that highly leveraged firms are inclined to raise their retained earnings and are found

to have lower dividends payout than low leveraged firms. DeAnglo, DeAnglo & Skinner (2004) investigated the phenomena of disappearing dividends and dividend concentration and consolidation of earnings. They found that aggregate real dividends paid by industrial firms increased over the past two decades because of the two causes; first the reduction in the payers happened approximately, entirely among firms that paid very small dividends. Secondly the augmented real dividends from the top payers slough the dividend reduction from the loss of many small payers.

From emerging economy of India Anil and Kapoor (2008) found that there are various determinants of dividend payout ratio, but profitability has always been regarded as a principal indicator of dividend payout ratio, and dividend payout ratio is positively associated with profits, size and cash flows while it is negatively associated with sales growth, corporate taxes, and market to book value ratio. Similarly, Ramachandram & Packkirisamy (2010) investigated the association between the corporate Leverage and Dividend policy of Indian corporate firms in respect of their sizes. Their investigation was based on a panel sample of 73 firms across six industries naming (Cement, IT, Chemical and Fertilizer, Oil & Gas, Pharmaceutical, shipping and Textile) listed in Indian National Stock Exchange NSE for the period 1996-2007. Their results, which were based on Multiple Regression Technique (OLS Method), proved that Dividend policy of small size, medium size, large size, and overall corporate firms across industries in India is dependent on the level of debt in Capital Structure.

Similar studies have been done in the context of Pakistan just as, Ayub (2005) investigated the effect of idiosyncratic characteristics of firm on corporate dividend payment behavior and found that only 23 percent of incremental profits are converted into dividend. Additionally, large number of stocks held by director's results in high dividend and low retained earnings. His results depicted that profitability, insiders' ownership and retained earnings are positively, where as liquidity, as negatively related to dividend payment. Ahmed and Javaid (2009) examined the determinant of dividend payout policy and found that Pakistani listed firms set their divided payment policy on the basis of current earnings per share and past dividend per share. Their investigation regarding determinants of dividend policy revealed that, ownership concentration and liquidity have positive where as the investment opportunities, market capitalization, size of the firm and leverage have negative effect on the corporate dividend payment policy.

Recently, an analogous investigation is conducted by Tallat Afza and Hassan Mirza (2010) who investigated the effect of firm specific factors on dividend payment behavior. Their OLS Regression results reveal that operating cash flow and profitability are found to be significant and positively where as the managerial and individual ownership, cash flow sensitivity, size and leverage are insignificant and negatively related to cash dividend. So far, several investigations have been conducted on the topic of dividend payment behavior pointing to various aspects and factors which are vital in determining corporate dividend payment behavior around the globe". Each of them has indicated different factors which can be the determinant of particular dividend policy of any given firm.

3. Research Methodology

The data for this study was collected by doing the Balance Sheet Analysis (BSA) using the official documents published by the State Bank of Pakistan. "The study is conducted on 169 firms listed on Karachi stock exchange covering time period of 2003-2011. Sampling criteria was: a company should belong to the textile sector, should not be delisted during the observation period, should have selling operations during the period and company should not have incurred losses during the period of consideration.

Binary Logit Regression is used to estimate the impact of independent variables of dividend behavior of the firms in the textile sector. Following Ferris et. al. (2009) the dependent variable, that is, dividend payment behavior of a particular company in a specific year, is measured by whether the company has paid any dividend in that particular year or not (a dummy variable), without considering the amount of dividend. That is, if a company pays dividend in a specific year then the value of the dummy variable will be (1) and if the company does not pay the dividend that value will be (0). A correlation matrix is also developed to find the interrelationship among all variables considered in the study, and at the same time to see how much two variables move together and change in one variable is accompanied by other variable.

Dependent Variable
In this study the dividend payout policy of textile firms of Pakistan is used as dependent variable and dividend behavior is used as the proxy for dividend payout policy. Due to some data constraints the dummies are used to measure the impact of independent variables on the dependent variable (dividend behavior). In dummies "0" is used for those companies

which do not pay the dividend and "1" is used for those which pay dividend in the total of 1218 firm years from 2003-2011. The existing studies have used the same variables, dividend behavior as the proxy of dividend policy (Ayub, 2005; Kumar, 2006; Al-Malkawi, 2007; Anil and Sujjata, 2008; Ahmed and Attiya, 2009: Afza and Mirza, 2010) but the methodology they have adopted for finding the relationship is bit different from this study. This study has used the Binary Logit model while the OLS model was used in most of the existing literature. The main reason of using this method is the inconsistent dividend payment behavior of firms in textile industry of Pakistan.

Independent Variables:

All the independent variables included in the analysis are measured according to methods adopted by Few et. al. (2007), Chen et al. (2005), Fama and French (2001), Ghosh (2006), Collins and Kothrai (1989), La Porta et al. (2000), Chung and Charoenwong (1991), Grullon et.al. (2002), Gugler (2003) and Stacescu (2006). The explanatory variables include; growth of the firm, size, debt ratio, volatility (risk), current ratio, tangibility and retained earnings to equity. The growth of the firm is calculated by calculating the incremental increase in total assets and taking every preceding year as the base year. The natural log of sales is used as a proxy for the firm size. The volatility of the firm is measured by calculating the variations in EBIT from its mean value.

The current ratio is the measure of firms working capital required to meet its day to day expenses and the current ratio is exposed to have positive relationship with the dividend policy of the firms. The total assets of the firm are used as the measure of firm's tangibility and the relationship between tangibility and dividend policy is expected to be negative. The Retained earnings to total equity is also one of the important determinants of firm's dividend policy. Retained earnings is expected to be negatively correlated with firm's dividend policy because the firms which retained more of their earnings for growth prospects are inclined to pay less to shareholders in the form of dividends.

Econometric Model

The econometric model used in this study is logistic regression. The logistic regression analysis is a technique which is widely used for estimating the probability of occurrence of an event. This model predicts a binary dependent outcome from a set of independent variables. Up to the researcher's knowledge this approach is not used so far by any of the

researchers here in Pakistan regarding this subject. Furthermore, the objective of our study is to estimate the relationship between dependent variable (dividend payment behavior) and multiple independent variables, that is, growth of the firm, size, debt ratio, volatility (risk), current ratio, tangibility and retained earnings to equity". Generalized form of probability model of a single variable e.g. size of the firm is depicted in the following equation.

$$P_i = E(DIV = 1|SZ_i) = \beta_1 + \beta_2 SZ_i \text{.. (1)}$$

Dividend payment behavior is represented as under by considering the single independent variable size (SZ) as mentioned in the above equation (i)

$$P_i = E(DIV = 1|SZ_i) = \frac{1}{1 + \exp[-(\beta_1 + \beta_2 SZ_i)]} \qquad \frac{1}{1 + \exp(-Z_i)}$$

Where,
$Z_i = \beta_1 + \beta_2 SZ_i$
SZ is the size of the firm
DIV = 1 means company pays dividend otherwise not if (DIV=0)
P_i is the probability of paying dividend and $(1-P_i)$ is the probability of not paying dividend.

So, from the above equation (2), it is derived as;

$$P_i = \frac{1}{1 + \exp(-Z_i)} \quad \text{(firms pay dividend)}$$

$$(1 - P_i) = \frac{1}{1 + \exp(Z_i)} \quad \text{(firms do not pay dividend)}$$

Equation (2) is the logistic regression function in which the range of Z_i is undefined at both positive and negative ends and P_i ranges from 0 to 1. Here the P_i is non-linearly related to Z_i (i.e. SZ_i) and the coefficients as well, so, the OLS procedure of estimation cannot be applied in estimating the parameters of the independent variables.

As in generalize logistic regression equation, the Pi (the probability of paying dividend) has non linear relationship with the set of independent variables and the parameters cannot be estimated by OLS method. But, by

taking the natural log of the odds ratio of P_i and $(1-P_i)$, we can estimate the relationship of dependent variable (dividend payment behavior) with its determinants considered in this study by applying OLS estimation procedure.

$$L_i \;=\; Ln \left[\frac{Pi}{(1-P_i)} \right]^{P_i} = Zi = \beta_1 + \beta_2\,SZ_i$$

This L_i is called logit and the log of this odds ratio is linear to all set of independent variables and the parameters can also be estimated by the OLS procedure of estimation. But our data type does not support this OLS estimation procedure and to avoid this complex estimation procedure, the ligit regression model is run by using the maximum likelihood estimation procedure.

Logistic Regression Model:

$DIV_{it} = \beta_0 + \beta_1\,(GR_{it}) + \beta_2\,(SZ_{it}) + \beta_3\,(EBIT_{it}) + \beta_4\,(RE_{it}) + \beta_5$ $(D/E_{it}) + \beta_6\,(CR_{it})$ it $+ \beta_7\,(MDev_{it}) + \beta_8(TANG_{it}) + \varepsilon it$

Where,

EBIT = net income of the firm in the particular time period
MDev = the proxy used as the measure of firm 's risk
SZ = size of the firm
GR = is the growth of the firm
D/E = debt ratio
CR is = current ratio
RE/TE = retained earnings to total equity
TANG = tangibility of firm

4. Results and Discussion

Direct Logit regression model is performed to identify the number of factors on the likelihood that the companies would pay dividend to their shareholders. The model contains eight independent variables (tangibility, profitability, current ratio, debt ratio, size of firm, retained earnings to equity ratio, growth of firm and volatility). The results of the analysis show that the overall model containing all predictors is statistically significant, χ^2 (8, N= 1218) = 421.25, p<0.0001, indicating that the model

is able to distinguish between the companies which are paying dividend and which are not paying dividend. The model, as a whole, has explained 44.4% (Cox and Snell R Square) and 82.2% (Nagelkerke R Square) of variances in the dividend

Table-I   Logistic Regression Model

	B	**S.E.**	**WALD**	**DF**	**SIG.**	**EXP(B)**	**95.0% C.I.for EXP(B)** Lower	Upper
GROWTH	-1.265	.727	3.024	1	.082	.282	.068	1.174
SIZE	4.387**	.759	33.418	1	.000	80.421	18.170	355.939
PROFITABILITY	.009**	.002	27.667	1	.000	1.009	1.006	1.012
RE TO EQUITY	.317	.203	2.446	1	.118	1.373	.923	2.042
DEDT RATIO	-.007**	.002	11.982	1	.001	.993	.989	.997
CURRENT RATIO	.004	.003	1.264	1	.261	1.004	.997	1.010
VOLATALITY	.013**	.003	23.578	1	.000	1.013	1.008	1.018
TANGIBALITY	.000**	.000	30.551	1	.000	.999	.999	1.000
CONSTANT	-36.502**	6.100	35.803	1	.000	.000		

*significant at 0.05
**significant at 0.01

Table-II   Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	136.105a	.444	.822

a. Estimation terminated at iteration number 10 because parameter estimates changed by less than .001.

Table-II   Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	136.105a	.444	.822

Tabl-III   Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	2.849	8	.943

payment behavior of the firms operating in Pakistan and has correctly classified almost 95 % of cases. The significance of the model is also supported by the result of Hosmer and Lemeshow Test, χ^2 (8, N= 1218) = 2.849, p>.0001. Contrary to Omnibus Tests of Model, the significance of the model is recognized if the P-value is greater than 0.05.

"The results of the model show that only three variables are insignificant in this model while rests of all five variables are statistically significant. It is identified that size of the firm is the most important factor of the dividend payment behavior of the firm with the odd ratio of 80.42. Tangibility, profitability, debt to equity ratio and volatility (measure of risk) are the other four variables which play a significant role in determining the dividend behavior of the Pakistani firms.

As it is evidenced by facts that when firm payout its earnings as dividend, it reduces its funds available for future investment. This was a traditional approach towards the earning of any firm and its outflows, but numbers of researches have demonstrated one new direction in the field of dividend policy. Arnott and Asness (2003) discovered the unexpected results that higher dividend payout ratio at the market level corresponds to higher future earnings growth in the United States. Another view point is also under consideration which affirms that the firm which payout less dividend has higher chances to invest that cash as internal investment opportunities and as a result there would be a higher firm growth. Results in Tabl-I show that there is a negative relationship between the dividend payout and growth of the firm; so, these results are inconsistent with the results of Arnott and Asness (2003).

It has also been found that size of the firm has significant positive relationship with dividend payout which indicates that large organizations

announce more dividends. This relationship is consistent with (Shah et al 2010; Fama and French, 2001; Mitton, 2004; and Li and Lie, 2006) who have found that larger firms are inclined to pay more dividends. Similarly, profitability of the firm is found to have significant positive relationship to dividend payout which is consistent to DeAngelo et al. (2004), who claimed that the higher concentration of firm's dividends is the result of its higher earnings concentration.

Retained earnings are something which remains after cash disbursement as dividend to shareholders. Lintner (1956) claimed that the level of retained earnings and savings is a by-product of dividend decision and these are implied through dividend policy determination. Darling (1957), Fama and Babiak (1968) supported Lintner's view point. Our results concerning retained earnings are consistent with Graham et al (1962) which claimed that $1 of dividend is worth four times as much to shareholders as $1 of retained earnings which means that the earnings of the firm are positively related to the dividend policy of the firm.

Our findings regarding leverage are consistent with the Stacescu (2006), who found that it would be a very tough decision for highly leveraged firms to have further debts. So, highly leveraged firms should meet their financial requirements by using internally collected funds or retained earnings. Thus high leveraged firms have a tendency to pay lower dividends as compared to low leveraged firms.

The result of our study shows that there is a positive relationship between dividend behavior and liquidity position (current ratio) of a firm but this relationship is statistically insignificant. This means that in case of Pakistani textile sector liquidity factor is not as much stronger determinant of dividend policy as rests of the factors are. On the other hand, earning volatility, which is considered one of the most important factors of any company's dividend payout policy in many studies, is found to have significant and positive relationship with the dividend payment behavior of Pakistani textile firms.

Firms with volatile cash inflows, on average, pay out a greater proportion of their cash inflows in the form of a dividend. This also implies that volatile firms will have volatile payouts. Firms with high cash inflows volatility also endure greater agency costs. When cash flows are variable, it is difficult for investors to accurately attribute deviations in cash flows to the actions of corporate managers or to factors beyond management's control. Thus, the higher the variance in cash flows, the greater the potential agency costs and the greater reliance on dividend

distributions. Similarly, consistent with previous studies, tangibility of the firm is also found to have significant positive relationship with dividend payment behaviour. This shows that firms having large assets in the textile sector of Pakistan are inclined to pay more dividends".

5. Conclusions

Our study examines the impact of various factors on the dividend payment behavior of corporate firms in Pakistan listed in Karachi Stock Exchange specifically in textile sector. "The study is carried out on 169 sample firms by empirically examining the determinants of dividend payment behavior over a wider testing period from 2003 to 2011. Dividend payment behavior is tested by using maximum likelihood estimation procedure and logistic regression model is applied on pooled cross sectional data for the total of 1218 firm years. From the results of our analysis, it has been concluded that the dividend payout ratio is quite low in the textile sector of Pakistan and only 20 % of the firms pay dividend annually.

From our findings it is concluded that most of the textile firms are small in size and many of these small firms are reluctant to pay dividend, whereas large firms which are few in quantity, are observed to pay higher dividends than small firms that is why the size of the firm is found to be the most dominant factor of firm's dividend payout policy. The reason of this higher dividend payment by large firms can be many. Large firms are found to be more profitable because they have appropriate access and resources to promote and export their products more favorably than their smaller counter parts which insist large firms to initiate and to keep continue the dividend payment.

In addition to it, country's law and order situation and other unfavorable environmental factors create volatility in earnings and this earnings volatility affects the value of stock negatively so in order to stabilize or compensate for the share value firms are compelled to pay higher dividends. As Pakistan is among the top most countries in textile manufacturing products in Asia and this sector is contributing allot in the overall GDP, exports, and employment which makes this sector more profitable than others. The negative and significant relationship between dividend behavior and growth of the firms shows that companies in this sector use their retained earnings for growth purpose rather than paying dividends. Furthermore, our results depict that there is a significant negative relationship between debt to equity ratio and dividend payment

behavior of firms which indicate that firms prefer to use long term debts rather than issuing equity as a source of financing. So it is concluded that most of the firms in the textile sector rely on their own earnings and long term debts for growth and day to day financing".

Further research can be conducted to investigate the impact of size of the firm on the price to earnings ratio of firms in this sector. As size of the firm has been found one of the major factors that determine the dividend payout policy, so, the further research may be conducted to investigate this relationship and the earnings volatility of firms can be analyzed with respect to size of the firm.

References

Easterbrook, F. H. (1984). Two agency-cost explanations of dividends. *The American economic review*, *74*(4), 650-659.

Gordon, M. J. (1963). Optimal investment and financing policy. *The Journal of finance*, *18*(2), 264-272.

Lintner, J. (1962). Dividends, earnings, leverage, stock prices and the supply of capital to corporations. *The review of Economics and Statistics*, 243-269.

Mirza, H., & Azfa, T. (2010). Ownership structure and cash flows as determinants of corporate dividend policy in Pakistan.

Khan, A. A., & Khan, M. (2010). Pakistan textile industry facing new challenges. *Research journal of international studies*, *14*(14), 21-29.

Kajola, S. O., Desu, A. A., & Agbanike, T. F. (2015). Factors influencing dividend payout policy decisions of Nigerian listed firms. *International Journal of Economics, Commerce and Management*, *3*(6), 539-557.

Mehta, A. (2012). An empirical analysis of determinants of dividend policy-evidence from the UAE companies. *Global Review of Accounting and Finance*, *3*(1), 18-31.

Ahmed, H., & Javid, A. Y. (2008). Dynamics and determinants of dividend policy in Pakistan (evidence from Karachi stock exchange non-financial listed firms).

Shah, S. Z. A., Yuan, H., & Zafar, N. (2010). Earnings management and dividend policy: An empirical comparison between Pakistani listed companies and Chinese listed companies. *International Research Journal of Finance and Economics*, *35*(1), 51-60.

Kinkki, S. (2001). Dividend puzzle-a review of dividend theories. *Liiketaloudellinen aikakauskirja*, 58-97.

Frankfurter, G. M., & Wood Jr, B. G. (2002). Dividend policy theories and their empirical tests. *International Review of Financial Analysis*, *11*(2), 111-138.

Baker, M., Ruback, R. S., & Wurgler, J. (2004). *Behavioral corporate finance: A survey* (No. w10863). National Bureau of Economic Research.

Baker, H. K., Veit, E. T., & Powell, G. E. (2001). Factors influencing dividend policy decisions of Nasdaq firms. *Financial Review*, *36*(3), 19-38.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, *3*(4), 305-360.

Bhama, V., Jain, P. K., & Yadav, S. S. (2018). Relationship between the pecking order theory and firm's age: Empirical evidences from India. *IIMB Management Review*, *30*(1), 104-114.

Fama, E. F., & French, K. R. (2006). Profitability, investment and average returns. *Journal of Financial Economics*, *82*(3), 491-518.

Fama, E. F., & French, K. R. (2001). Disappearing dividends: changing firm characteristics or lower propensity to pay?. *Journal of Financial economics*, *60*(1), 3-43.

Michaely, R., & Allen, F. (2002). Payout policy.

Arnott, R. D., & Asness, C. S. (2003). Surprise! Higher dividends= higher earnings growth. *Financial Analysts Journal*, *59*(1), 70-87.

Arnott, R. D., & Asness, C. S. (2003). Surprise! Higher dividends= higher earnings growth. *Financial Analysts Journal*, *59*(1), 70-87.

Imran, K. (2011). Determinants of dividend payout policy: A case of Pakistan engineering sector. *The Romanian Economic Journal*, *41*, 47-60.

Aivazian, V., Booth, L., & Cleary, S. (2003). Do emerging market firms follow different dividend policies from US firms?. *Journal of Financial research*, *26*(3), 371-387.

Mollah, S. (2011). Do emerging market firms follow different dividend policies? Empirical investigation on the pre-and post-reform dividend policy and behaviour of Dhaka Stock Exchange listed firms. *Studies in Economics and Finance*, *28*(2), 118-135.

Allen, D. E. (1991). The determinants of the capital structure of listed Australian companies: the financial manager's perspective. *Australian Journal of Management*, *16*(2), 103-128.

Miller, M. H., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares. *the Journal of Business*, *34*(4), 411-433.

Elston, J. A. (1996). Dividend policy and investment: Theory and evidence from us panel data. *Managerial and Decision Economics*, *17*(3), 267-275.

Leary, M. T., & Michaely, R. (2011). Determinants of dividend smoothing: Empirical evidence. *The Review of Financial Studies*, *24*(10), 3197-3249.

Kumar, P., & Lee, B. S. (2001). Discrete dividend policy with permanent earnings. *Financial Management*, 55-76.

Hoberg, G., & Prabhala, N. R. (2009). Dividend policy, risk, and catering. *Review of Financial Studies*, *22*(1), 79-116.

DeAngelo, H., DeAngelo, L., & Skinner, D. J. (2004). Are dividends disappearing? Dividend concentration and the consolidation of earnings. *Journal of financial economics*, *72*(3), 425-456.

Anil, K., & Kapoor, S. (2008). Determinants of dividend payout ratios-a study of Indian information technology sector. *International Research Journal of Finance and Economics*, *15*(1), 63-71.

Ramachandran, A., & Packkirisamy, V. (2010). The Impact of Firm Size on Dividend Behaviour: A Study With Reference to Corporate Firms across Industries in India. *Managing Global Transitions: International Research Journal*, *8*(1).

Packkirisamy, V., & Ramachandran, A. (2010). The impact of firm size on dividend behaviour.

Malik, F., Gul, S., Khan, M. T., Rehman, S. U., & Khan, M. (2013). Factors influencing corporate dividend payout decisions of financial and non-financial firms. *Research Journal of Finance and Accounting*, *4*(1), 35-46.

Ferris, S. P., Noronha, G., & Unlu, E. (2010). The more, the merrier: An international analysis of the frequency of dividend payment. *Journal of Business Finance & Accounting*, *37*(1-2), 148-170.

Mirza, H., & Azfa, T. (2010). Ownership structure and cash flows as determinants of corporate dividend policy in Pakistan.

Noordin, N., Rajaratnam, S., Said, S., Mohd Hanif, F., & Juhan, R. (2012). Dividend and Profit Allocation Practices of Performing Cooperatives in Malaysia.

Fowdar, S., Subadar, U. A., Lamport, M., Sannassee, R. V., & Boodhoo, S. (2007). Motivators of Dividend Payout among Firms listed

on the Stock Exchange of Mauritius. *University of Mauritius Research Journal*, *13*(1), 103-115.

Stacescu, B. (2006). Payout and Investment Decisions under Managerial Discretion.

Bouwman, M. J., Frishkoff, P. A., & Frishkoff, P. (1987). How do financial analysts make decisions? A process model of the investment screening decision. *Accounting, Organizations and Society*, *12*(1), 1-29.